

Message Text

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PAGE 01 OECD P 22383 01 OF 02 021812Z

54

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INFO OCT-01 EA-07 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

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PASS TREASURY FOR PARSKY, AID FOR MICHALOPOULOS,
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TAGS: EFIN, CIEC, EAID, OECD

SUBJECT: PROSPECTIVE OECD SECRETARIAT PAPER ON QUESTIONS
RELATING TO "NON-ACUTE" SITUATIONS OF LDC DEBT

REFS: (A) OECD PARIS 22046, (B) OECD PARIS 20732

1. AT REQUEST OF SEC GEN VAN LENNEP, MISSION HAS RECEIVED
BRIEFING FROM OECD SECRETARIAT ON PROSPECTIVE PAPER ON
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PAGE 02 OECD P 22383 01 OF 02 021812Z

LDC DEBT ISSUES WHICH SECRETARIAT PLANS TO CIRCULATE

AROUND MID-AUGUST FOR DISCUSSION AT AD HOC MEETING OF FINANCIAL AND DEVELOPMENT OFFICIALS SCHEDULED FOR SEPTEMBER 7-8 (REFTEL A). WE UNDERSTAND THAT SECGEN HAD ORIGINALLY INTENDED THIS PAPER FOR TEMPORARY WORKING PARTY OF EPC (TWP), BUT IN VIEW OF ORGANIZATION OF AD HOC MEETING FEELS IT TO BE MORE LOGICAL THAT PAPER BE PRESENTED IN THAT FORUM. SIMILAR ADVANCE BRIEFINGS ALSO BEING GIVEN BY OECD SECRETARIAT TO FRENCH GOVERNMENT (HABERER) AND TO DUTCH OFFICIALS IN THE HAGUE.

2. SECRETARIAT'S PAPER WILL BE ADDRESSED TO CATEGORY OF LDC DEBT PROBLEMS OTHER THAN THOSE THAT CAN BE QUALIFIED AS "ACUTE" AND THUS TO BE HANDLED IN CREDITOR CLUBS, ON WHICH SUBJECT TWP PREPARED PAPER AT ITS LAST MEETING (REFTEL B). NEW PAPER WOULD RECOGNIZE THAT SUCH "NON-ACUTE" DEBT PROBLEMS MUST BE SEEN IN CONTEXT OF OVERALL BALANCE-OF-PAYMENTS POSITION AND OF GENERAL ECONOMIC POLICIES OF COUNTRY CONCERNED. PAPER ALSO UPHOLDS PRINCIPLES THAT (A) DEBT CONTRACTS MUST BE OBSERVED, (B) THERE SHOULD BE NO INTERFERENCE IN THE DEBTOR/CREDITOR RELATIONSHIP, (C) ANY DEBT RELIEF MUST BE CONSIDERED AMONG MEASURES OF LAST RESORT, AND (D) DEBT RELIEF MUST BE GIVEN ONLY ON A CASE-BY-CASE BASIS.

3. AS WE UNDERSTAND IT, PAPER WOULD THEN GO ON TENTATIVELY TO SUGGEST FOR DISCUSSION POSSIBLE IDEAS FOR PREVENTIVE AS WELL AS REMEDIAL MEASURES FOR TWO CATEGORIES OF COUNTRIES. THE FIRST CATEGORY CONSISTS OF THE LEAST-DEVELOPED COUNTRIES LLDC'S, AND THE SECOND CATEGORY WOULD COMPRISE A GROUP OF COUNTRIES, WITH CHARACTERISTICS THAT WOULD BE LEFT FOR FUTURE DEFINITION, WHICH WOULD TAKE IN THOSE COUNTRIES THAT FALL BETWEEN THE LLDC'S AND THOSE MIDDLE-LEVEL AND BETTER-OFF LDC'S THAT ARE ABLE TO FINANCE THEMSELVES ADEQUATELY MAINLY THROUGH THE PRIVATE MARKET. THIS SECOND CATEGORY WOULD BE INTENDED TO INCLUDE INDIA AND PAKISTAN AND SIMILAR CASES.

4. FOR THE LLDC'S, THE PAPER WOULD SUGGEST THAT PREVENTIVE MEASURES ARE ALREADY LARGELY FORESEEN IN THE RECENT UNCTAD RESOLUTION APPROVED IN NAIROBI ON LEAST-LIMITED OFFICIAL USE

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PAGE 03 OECD P 22383 01 OF 02 021812Z

DEVELOPED AMONG THE DEVELOPING COUNTRIES, DEVELOPING ISLAND COUNTRIES, AND DEVELOPING LAND-LOCKED COUNTRIES, IN TERMS OF IMPROVING THE VOLUME AND QUALITY OF FUTURE AID FLOWS. THE SECRETARIAT BELIEVES THAT DEVELOPED COUNTRIES MIGHT WELL WISH TO TAKE CREDIT FOR PROVISIONS OF AFOREMENTIONED RESOLUTION BY APPROPRIATELY INCORPORATING THEM INTO THE FINAL "PACKAGE" WHICH MIGHT EMERGE FROM CIEC DISCUSSIONS ON DEBT ISSUES. THE MAIN NOVEL

IDEA OF PREVENTIVE NATURE FOR LLDC'S IN THE OECD PAPER
WOULD BE SUGGESTION THAT BOTH CREDITORS AND BORROWERS
MIGHT UNDERTAKE TO "RESTRAIN" OFFICIAL CREDITS OR
OFFICIALLY-GUARANTEED SUPPLIERS' CREDITS EXTENDED ON
NORMAL COMMERCIAL TERMS. WITH RESPECT TO REMEDIAL
MEASURES, OECD PROPOSES THAT FOR LLDC'S THERE WOULD BE
A PRESUMPTION THAT THIS CATEGORY OF COUNTRIES WOULD
RECEIVE THE MOST FAVORABLE TREATMENT THAT MIGHT EMERGE
FROM THE DEVELOPMENT IN CIEC OF "FEATURES" FOR "NON-
ACUTE" SITUATIONS AS DESCRIBED BELOW.

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PAGE 01 OECD P 22383 02 OF 02 021928Z

54

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5. MAIN PURPOSE OF OECD PAPER WOULD BE TO STIMULATE DISCUSSION OF "FEATURES" WHICH UNDER UNCTAD NAIROBI DEBT RESOLUTION MIGHT BE DEVELOPED FOR SECOND CATEGORY OF POOR LDC'S WHICH DO NOT QUITE QUALIFY AS LLDC'S. THE OECD PAPER WOULD SEEK TO CATALOG "FEATURES" BASED ON ACTUAL EXPERIENCE IN CONSORTIA FOR COUNTRIES SUCH AS INDIA AND PAKISTAN. THE SECRETARIAT APPEARS TO BE PROBING TO DEFINE CIRCUMSTANCES AND SITUATIONS FOR THESE COUNTRIES WHICH (SHORT OF AN ACUTE DEBT CRISIS SITUATION) LIMITED OFFICIAL USE

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PAGE 02 OECD P 22383 02 OF 02 021928Z

OF THE KIND HANDLED IN CREDITOR CLUBS) MIGHT BE PERTINENT FOR CASES IN WHICH COUNTRY IN THIS CATEGORY MIGHT ASK FOR AN EXAMINATION OF ITS PROBLEMS BY IBRD OR APPROPRIATE REGIONAL IFI. BY WAY OF PREVENTIVE MEASURES, THE SECRETARIAT WILL SUGGEST THAT AN EFFORT MIGHT BE CONSIDERED TO IMPROVE ASSISTANCE TO THESE COUNTRIES ALONG THE LINES PROVIDED FOR THE LLDC'S UNDER THE NAIROBI RESOLUTION. AS CONCERNS REMEDIAL MEASURES, THE OECD PAPER WILL SUGGEST THAT APPROPRIATE CASE-BY-CASE EXAMINATION OF A POOR LDC MIGHT BE CONSIDERED WHEN SUCH A COUNTRY, AFTER HAVING TAKEN ALL APPROPRIATE INTERNAL AND EXTERNAL MEASURES, FINDS ITSELF IN A SITUATION IN WHICH ITS DEBT SERVICING DIFFICULTIES -- IN THE CONTEXT OF ITS OVERALL PAYMENTS SITUATION -- ARE OF A NATURE AND SIZE LIKELY TO JEOPARDIZE MINIMUM DEVELOPMENT OBJECTIVES. THE PAPER WOULD RECOGNIZE THAT SHOULD OECD BE WILLING TO CONSIDER THIS KIND OF APPROACH, FURTHER WORK WOULD HAVE TO BE DONE TO TRY TO DEFINE CONCEPTS SUCH AS WHAT IS MEANT BY (A) "DEBT-SERVICING DIFFICULTIES"; (B) "MINIMUM DEVELOPMENT OBJECTIVES" (SECRETARIAT EXPLICITLY STATES IT DOES NOT HAVE IN MIND GUARANTEEING ANY GIVEN RATE OF GROWTH); AND (C) "APPROPRIATE INTERNAL AND EXTERNAL MEASURES."

6. SECRETARIAT SOUGHT TO ASSURE US THAT PAPER WOULD NOT PREJUDGE CONCLUSIONS AND DOES NOT CONTEMPLATE ANY AUTOMATIC CRITERIA. IT WILL RECOGNIZE THAT "NON-ACUTE" SITUATIONS MUST BE LOOKED UPON IN AN OVERALL CONTEXT RATHER THAN NARROWLY AS DEBT PROBLEMS. IT WILL ALSO SHOW AWARENESS THAT IN "NON-ACUTE" CASES SOME CREDITORS MIGHT WISH TO GIVE DEBT RELIEF WHILE OTHER DONOR COUNTRIES MIGHT WISH TO PROVIDE "EQUIVALENCY" THROUGH OTHER MEANS.

7. COMMENT: SECRETARY-GENERAL IS OBVIOUSLY LOOKING FOR WAYS IN WHICH OECD CAN MAKE A CONTRIBUTION TO THE KNOTTY LDC "DEBT" QUESTION IN CIEC. THE ADVANCE BRIEFINGS OF

U.S., FRANCE AND NETHERLANDS ARE APPARENTLY DESIGNED TO
FEEL THE GROUND A BIT BEFORE STEPPING INTO THIS VERY
DELICATE AREA. MISSION WILL BE GLAD TO PASS ON TO SECRE-
TARIAT ANY REACTIONS WASHINGTON AGENCIES MAY HAVE.
THERE IS OF COURSE NO ASSURANCE THAT SUCH COMMENTS WOULD
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PAGE 03 OECD P 22383 02 OF 02 021928Z

BE INCORPORATED IN THE PAPER, NOR DO WE KNOW HOW THE
FINAL DRAFTING MIGHT BE INFLUENCED BY THE SECRETARIAT'S
CONTACTS WITH THE FRENCH AND THE DUTCH.
TURNER

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